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SOURCE Zabaykal'skiy Rabochiy, No 33, 1949

"WORKING CAPITAL" THEORY EXPLAINED

The turnover of working capital, which is the main qualitative index of an enterprise's activity can be computed in days. One method of measuring this turnover is to divide the average cost of the current elements used in production (the cost of unfinished production, for example) by the cost of the average daily output of the enterprise. If the average cost of unfinished production (the cost of products still in the production process) in an enterprise is 1,400,000 rubles and the average daily production output is 100,000 rubles, the turnover of working capital will be 14 days. That is, the entire production cycle, from the start of production to the output of finished goods, takes 14 days on the average. This enterprise must then have, for continuous production, working capital or credit of 1,400,000 rubles in the State Bank to cover the cost of unfinished production.

If the production cycle is shortened by 3 days (by speeding the turnover of working capital invested in unfinished production by 3 days), the enterprise releases 300,000 rubles to finance other branches of the national economy. Since the components of production consist not only of unfinished production but also of other elements (raw and basic materials, semifinished materials purchased outside the enterprise, auxiliary materials, fuel, packing materials, spare parts, low-priced and currently-expended tools and equipment, special clothes for workers, as well as finished goods located either in the warehouse, at distribution points, or in retail stores), the enterprise, by speeding the turnover of working capital invested in all these production elements, is able to release considerably larger sums to the State than the amount mentioned in the above example.

Experience of leading Soviet enterprises indicates that the main methods of speeding the turnover of working capital is by introducing assembly-line production, adopting the average progressive norm in utilizing equipment, fuel, and materials, and by shipping finished goods to consumers on schedule.

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